



Private Equity Alert

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Special Edition

Treasury Secretary Geithner Presents Framework for Regulation of Private Investment Funds

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In testimony on March 26, 2009 to the House Financial Services Committee on new regulatory reform, Treasury Secretary Tim Geithner outlined four broad components of comprehensive market reform, addressing systemic risk, protecting consumers and investors, eliminating gaps in our regulatory structure and fostering international coordination. Focusing his testimony on the systemic risk component, Secretary Geithner outlined proposals including requiring some form of registration of hedge funds and other private pools of capital above a certain threshold size. Stated generally, with more specifics to follow, the new rules would require:

- All advisers to hedge funds (and other private pools of capital, including private equity funds and venture capital funds) whose assets under management exceed a certain threshold to register with the SEC.
- All private investment funds advised by a registered investment adviser to be subject to investor and counterparty disclosure requirements and regulatory reporting requirements.
- Regulatory reporting by or on behalf of private investment funds, on a confidential basis, of information necessary to assess whether the fund or fund family is so large or highly leveraged that it poses a threat to financial stability.

In addition, as proposed, new rules would permit the SEC to share with a “systemic risk regulator” reports submitted by a private investment fund, which regulator would then determine whether the private investment fund could pose a systemic threat and should be subjected to certain standards.

While using such terms as “hedge fund” and “private pools of capital”, the proposals appear to apply universally to any private investment fund. Also, as proposed, there is some confusion as to whether some form of registration would be required of certain private investment funds in addition to the registration of the investment adviser. The proposals offer no guidance as to the contemplated threshold of assets of a private investment fund or of the investment adviser to a private investment fund that would require registration. The proposals also offer no guidance as to what kinds of additional oversight and requirements the systemic risk regulator could impose on the registered adviser or fund. It is anticipated that more detailed proposals will be submitted by Secretary Geithner to Congress and, accordingly, it is difficult at this point in time to predict what final legislation or regulations will emerge.

We will keep you apprised of developments through further Alerts.

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